

Chapter V Present Status and Future Prospects of the Relationship between China and Taiwan - Reaching Toward Reconciliation

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シリーズタイトル(英)	IDE Spot Survey
シリーズ番号	6
journal or publication title	One Country Two Systems - China's Dilemma
page range	[50]-62
year	1997
URL	http://hdl.handle.net/2344/00010465

Chapter V

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Introduction

A variety of speculations have been made public regarding the question of what effects the reversion to China of Hong Kong in 1997 will have on Taiwan. At the present time, with the specific format of the reversion of Hong Kong still undecided, it is difficult to guess what the effects on Taiwan will be. However, now that the reversion is imminent, if we consider in which fields the relationship between China and Taiwan is marked by compromise and in which fields confrontation is becoming more acute, we can no doubt find material that will help us to see what the relationship between the two countries will be like after Hong Kong's reversion. This chapter is an attempt, based on this awareness, to examine how the impact on Taiwan of the reversion of Hong Kong will affect the relationship between China and Taiwan.

1. The Reply of General Principles

China expressed no welcoming overtures upon the election of Li Teng-hui to the office of president. Late on the night of March 23, 1996, when the election of candidate Li Teng-hui became certain, the Taiwan Affairs Office of State Council of China announced, via the New China News Agency, their comments on the results of the balloting⁽¹⁾. The comments emphasized the view that, in spite of the election of candidate Li Teng-hui, "There is only one China in the world, and Taiwan is an indivisible part of it. The change in the method of electing Taiwan's leaders and its results do not change the fact that Taiwan is Chinese territory. ... We place our hopes in the citizens of Taiwan and call upon all citizens of China, including our Taiwanese brothers, to join hands to oppose division and Taiwanese

independence, and to work tirelessly to advance the development of both sides and the reunification of our motherland."

After the presidential election, Taiwan appealed to China to help mend their relationship. At the inauguration ceremony on May 20, President Li Teng-hui proposed a reopening of the dialog with China⁽²⁾. Specifically, he stated in his inauguration speech that (1) Taiwan would not choose the road to independence, (2) he was prepared, if necessary at some future date, to visit the Chinese mainland, with the support of the citizenry and based on the agreement and understanding of their fellow countrymen in China, and (3) that he wished for a direct exchange of views with the leadership of the Chinese Communist Party in order to open a new dimension of mutual cooperation and understanding between both sides, and to maintain the peace, stability, and prosperity of the Asia-Pacific region.

Various foreign countries interpreted the speech as an expression of a desire to improve relations with China and as a contribution to an easing of tensions. At a press conference held on the twentieth, Chief Cabinet Secretary Seiroku Kajiyama evaluated the speech in the following manner: "The idea that Taiwan has no need or possibility of choosing independence is a bold proposal overflowing with the confidence of democracy." The United States also took the inauguration speech as a proposal for reconciliation between China and Taiwan. Cyrus Vance, the U.S. State Department spokesman, evaluated the speech positively as follows: "We believe that any means necessary should be pursued cooperatively in order to solve problems in a peaceful manner. In this sense, we feel that this proposal is a step in the right direction."⁽³⁾

China made it clear that it took a critical stance. On the twenty-first, the day after the speech was announced, Foreign Minister Qian Qichen, who

was then visiting Harare, the capital of Zimbabwe, held a press conference in which he criticized the speech by President Li in the following terms: "In his speech, Li Teng-hui announces that something called 'Taiwanese independence' cannot be attained, and that it is his intention to visit the Chinese mainland. But though he says these things, is he making any preparations to carry out his words? Though he says with his mouth that we should look at the facts, he looks at the fact that the mainland of our motherland, with its 1.2 billion citizens, ... holds the supreme status in the world and pretends not to see it. Taiwan, which controls only a tiny portion of our territory, makes statements like, 'we will guide the Chinese mainland toward development,' or 'we perform the function of cultural leadership,' or we play the role of the 'new goal' of culture. This is clearly bragging, an attempt to fool people."⁽⁴⁾

After that, China did not take an accommodating stance toward calls from the Taiwanese authorities for improved relations. In an interview with *Figaro* by Chairman Jiang Zemin, which was published in the *People's Daily* on September 7, Chairman Jiang listed the following preconditions for any discussions between the leaders of China and Taiwan: (1) the abandonment in international society of any political conspiracies aimed at creating "two Chinas," (2) the termination of all divisive actions, such as attempts to return to the United Nations, and (3) the three links (direct links in commerce, shipping, and communications).

2. *Working to Improve Practical Relations*

The relationship between China and Taiwan is still at stalemate in the area of general principles, including the question of discussions between the top leadership. In the field of practical relations, however, the Taiwanese authorities have relaxed restrictions on contacts with China and expressed a desire to improve relations. On April 18, 1996, the Ministry of Transportation and Communications announced a plan to allow the direct import of containers from China, without the need for transshipment, as of May 1⁽⁵⁾. Previously, containers from China had had to be transshipped via a third country or territory such as Hong Kong. This created problems due to the added cost and time delays caused by the transshipment. Imports via containers, converted into a 20-foot container equivalent,

amounted to approximately 71 million containers annually. Of these, approximately 50,000 had to be transshipped, at an added cost per container of approximately 600 dollars.

On April 24, at a meeting called to review the "National Construction Plan for the Transition from One Century to the Next" issued by the Executive Yuan, Council for Economic Planning and Development proposed a plan to establish a "Special District for Bilateral Trade."⁽⁶⁾ According to the plan, the free inflow and outflow of personnel, capital, freight, and ships traveling between the two sides would be permitted in the special district, unlike the rest of Taiwanese territory. In the special district, the three links (shipping, commerce, and communications), which for some time the Chinese had been calling for, would be realized. However, the provisions for "shipping" were to apply only to ships, not to aircraft. Plans called for a special district to be initially established at the port of Kaohsiung. This was to be followed by the establishment of the port of Taichung as a special district. At the latest, the first special district was to be established within a year.

On June 1, Kao K'ung-lien, Vice-Chairman of the Mainland Affairs Council, made public a plan to recognize the permanent assignment of reporters representing the Chinese mass media⁽⁷⁾. The specifics of the plan called for reporters to be stationed in Taiwan for a period of six months, for there to be no special restrictions on their news-gathering activities, and for the reporters to be treated in the same manner as those working for the Taiwanese media. It was announced that the plan could be put into effect within the year.

On July 29, the Mainland Affairs Council announced a plan to permit regional government leaders to visit China, which had previously been prohibited in practical terms, provided that such visits were limited to economic or cultural exchange only⁽⁸⁾. This loosening of restrictions was to apply to the heads of Taiwan provincial government ministries, to the mayors of Taipei and Gaoxiong, and to the mayors and governors of other cities and counties. According to the Mainland Affairs Council, the restrictions were to be relaxed only to allow economic or cultural exchanges; visits to China for political purposes would still not be permitted. Nevertheless, there had previously been a case in which a person with experience on the President of the Legislative Yuan had visited China and held

"political" discussions with the Chinese leadership, using the fact that he was retired as an excuse. In addition to its significance as an appeal to China, this loosening of restrictions also carried strong connotations of a ratification of what had already taken place.

China did not entirely fail to respond to the signals from Taiwan indicating a desire to improve relations. On July 11, an agreement between China Petroleum Corporation, a publicly managed Taiwanese enterprise, and China Offshore Petroleum Corporation, a publicly managed Chinese enterprise, on joint exploration of undersea oil fields was signed in Taipei⁽⁹⁾. The agreement divided an area of the ocean floor measuring approximately 15,400 square kilometers and linking the open sea between the Pearl River Delta in Guangdong Province and the southern portion of Taiwan Province into eastern and western sections along a line at 118° east longitude. It called for exploration for oil to take place for a period of two years, with exploration in the western section under Chinese supervision and exploration in the eastern section under Taiwanese supervision. The project was to have a budget of one million dollars, with the Chinese and Taiwanese each contributing equally.

Previously, 118° east longitude had been considered to be the practical boundary between China and Taiwan. The Taiwanese considered the signing of the agreement to have the political result of signifying a recognition on the part of China that this practical boundary existed. Also, due to Taiwanese worries that joint exploration with China by one of its key industries might conflict with the "National Unity Principle," which regulates relations with China, the actual signing of the agreement was performed by Offshore Petroleum Investment Corporation, a subsidiary of China Petroleum Corporation.

China has also been working to build a practical relationship. On August 20, the "Taiwan Strait Bilateral Shipping Management Law," which regulates maritime transportation with Taiwan, was announced and put into force by the Chinese Ministry of Communication⁽¹⁰⁾. This law consists of 15 articles, and it applies to direct sea transport, both of passengers and of freight, between the territory on either side of the Taiwan Strait. Maritime transportation between the two sides is considered to be a type of domestic transport within China that is subject to special management, and the Ministry of

Communication of the People's Republic of China is the supervising government authority. The law states that transport companies registered in either China or Taiwan are permitted to engage in the transport business between the two sides, provided they conform to the specified conditions and are granted approval by the Ministry of Communication.

The significance of this law is that it encouraged direct shipping under Chinese authority by treating direct shipping between China and Taiwan as domestic transport within China. The Taiwanese transport companies immediately made clear their intention to submit applications to the Chinese government. Chang Ching-yü, chairman of the Mainland Affairs Council, then expressed as follows the government's intention not to accommodate the new Chinese law: "Our side (the Taiwanese side) will come up with our own plan on the basis of consultations with the Ministry of Transportation and Communications and Council for Economic Planning and Development." In spite of the applications from Taiwanese shipping companies, the Chinese side also said that it would not make any move to accept applications. They gave as their reason a statement that the details of the new law had not yet been decided. It was also said that the real reason was that the Taiwanese authorities had not made any formal reply to the law.

3. Effects of the Economic Slump

One of the factors behind the failure of China-Taiwan relations to improve quickly is the decline in the Taiwanese economy. After the visit to the United States of President Li Teng-hui in June 1995, pressure in the form of military exercises by China began to effect the economy of Taiwan. In particular, a series of military exercises carried out by China on the occasion of the presidential election in March of 1996 inhibited economic development in Taiwan. Specifically, according to an announcement by the Ministry of Economic Affairs on March 16, the effects on the entire economy were expected to be widespread, with (1) a decline in private investment, (2) a decline in investment on the mainland, (3) stagnant exports, (4) losses to shipping facilities due to changes in shipping routes, and (5) the possibility of a trend toward the withdrawal of

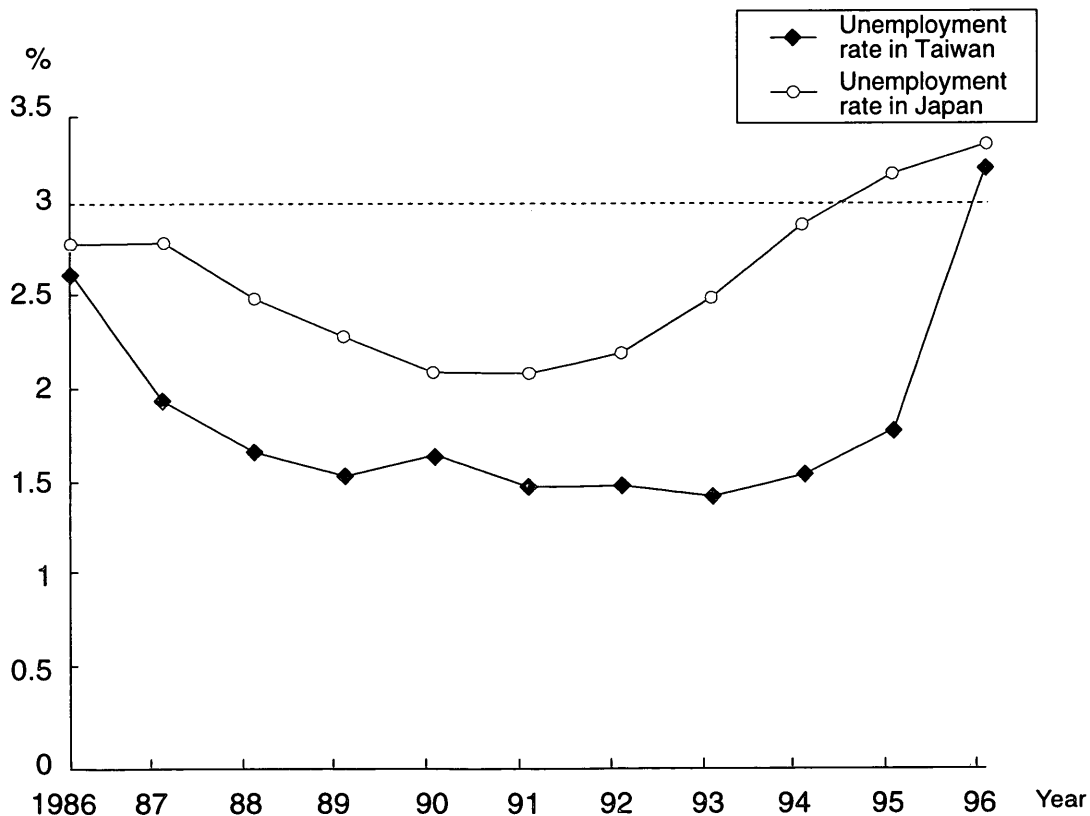
investment in Taiwan by America and Europe, although no immediate such withdrawal of investment was foreseen⁽¹¹⁾.

As if to back up these predictions, the Taiwanese economy went into a slump in 1996. On July 15, 1996, Chung-Hua Institution for Economic Research announced an economic growth prediction of 5.88% and stated that growth could be as much as 6.06% less than that in 1995. On August 24, the Directorate General of Budget, Accounting & Statistics revised its previous economic growth prediction of 6.17% down to 5.89%⁽¹²⁾. If economic growth failed to exceed 6%, it would be the lowest level of growth since 1991.

The slump in the economy was clearly shown in a rise in the rate of unemployment. In spite of the general downward trend in the international economy, the unemployment rate in Taiwan had been lower than that in other countries such as Japan. This index was therefore looked to in order to determine whether the Taiwanese economy was

losing its vitality. Since the start of 1996, the rate of unemployment in Taiwan has shown a steady upward trend. Specifically, the unemployment rate was 2.60% in June, 2.97% in July, and 3.19% in August. This last figure indicates that unemployment in Taiwan had reached roughly the same level as that in Japan⁽¹³⁾ (Figure 5-1). The number of unemployed persons in August was 297,000, exceeding by 21,000 the figure for July. The August unemployment figure was the highest on record since August of 1986. When broken down by sector of the economy, the employment situation in the service industries was comparatively good, while the situation in the manufacturing and agricultural sectors was poor. Compared with August of 1995, the number of persons employed in the service industries had increased by 136,000, while the number employed in agriculture had dropped by 48,000 and the number employed in manufacturing had dropped by 175,000.

Figure 5-1 Trends in Unemployment Rates in Taiwan and Japan



Source: ROC Monthly Statistical Report, Japan Kokuseizue and others. 1996 figures are up to August.

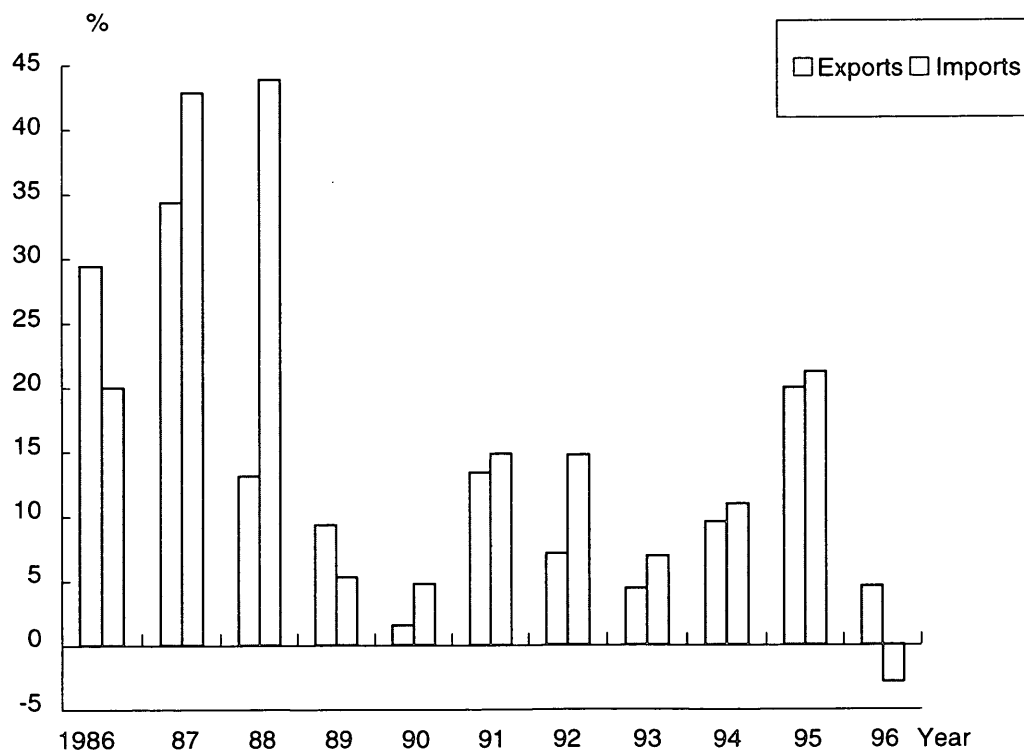
Faced with this increase in unemployment, Council for Economic Planning and Development decided on August 14 to freeze the number of foreign workers that would be allowed into the country⁽¹⁴⁾. This freeze was to remain into effect until the rate of unemployment showed a clear downward trend. However, the number of foreign workers employed at that time in public construction projects accounted for more than 90% of the construction manpower. Instituting a freeze would have had an adverse effect on the progress of public construction projects. For this reason, foreign workers employed in public construction projects were exempted from the decision.

Trade was also stagnant. The value of trade, both of imports and exports, for the period from January through September of 1996 was 161 billion dollars. This was an increase of a mere 0.7% over the corresponding period the previous year. (Bilateral trade from January through September of 1995 had increased 24.3% over the corresponding period in

1994⁽¹⁵⁾.) When broken down into components, exports amounted to 85.6 billion dollars, up 4.5% over the corresponding period for the previous year. (Exports from January through September of 1995 had increased 22.7% over the corresponding period in 1994.) Imports totaled 75.4 billion dollars, down 3.2% from the corresponding period for the previous year. (Imports from January through September of 1995 had increased 26.0% over the corresponding period in 1994.) These figures indicate a continuing downturn from the corresponding period in 1995 (Figure 5-2).

An examination of the value of bilateral trade with specific partners shows a notable drop in trade with Japan (down 4.6%) and with the United States (down 1.6%). In contrast, trade with Europe was up (by 5.2%). In the case of trade with Japan, exports between January and September totaled 10.4 billion dollars, a vigorous rise of 8.1% over the corresponding period the previous year. Nevertheless, imports

Figure 5-2 Taiwan Trade — Comparison of Imports and Exports with Previous Years (1986-96)



Source: Compiled from *Trade Advancement Monthly Statistical Report*. 1996 figures are for January through September.

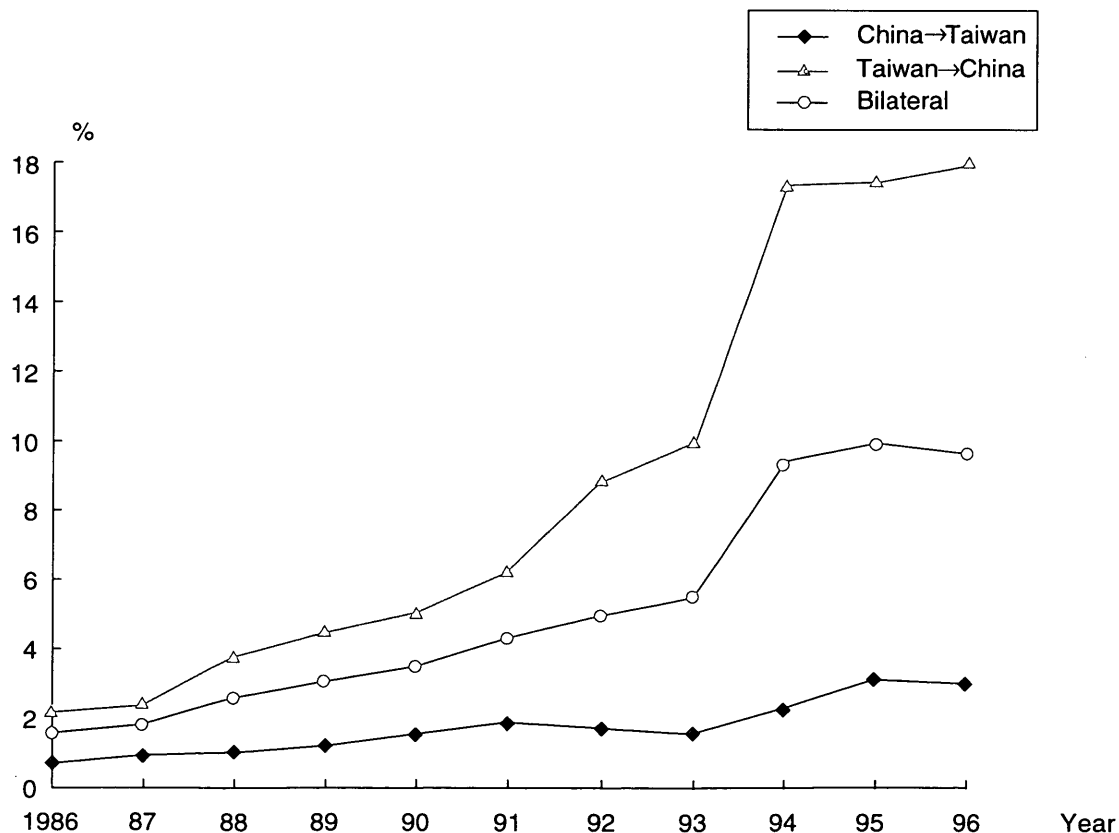
totaled 20.6 billion dollars, which was a decrease of 9.9% compared with the corresponding period for the previous year. Therefore, the combined result has been a decrease in bilateral trade. An increase in exports from Taiwan to Japan and a decrease in imports helps to correct the trade imbalance between the two countries, which had been a pending issue. The trade balance ratio (value of exports/value of imports) became 0.50, which indicates an improvement from the figure of 0.42 for the corresponding period in 1995.

Trade between China and Taiwan, which had been booming, began to be affected by the troubled relations between the two countries. On August 28, the Directorate General of Budget, Accounting & Statistics announced that bilateral trade between China and Taiwan during the first six months of 1996 had amounted to 10.4 billion dollars, an increase of only 0.1% over the correspond-

ing period for the previous year⁽¹⁶⁾ (Figure 5-3). This broke down to exports from Taiwan worth 9.0 billion dollars, up 1.5% over the corresponding period for the previous year, and imports to Taiwan worth 1.5 billion dollars, down 7.9% from corresponding period for the previous year.

However, enthusiasm for investment in China was not waning. On August 10, the Investment Commission of the Ministry of Economic Affairs reported that the value of investment in China (on the basis of applications) between January and July of 1996 was 780 million dollars, a 17% increase over the corresponding period for the previous year⁽¹⁷⁾. In contrast, foreign investment in Taiwan during the same period had increased by only 8% over the corresponding period for the previous year, and was lower than the level of Taiwanese investment in China.

Figure 5-3 Percentage of Taiwan Trade Accounted for by Indirect Trade with China



Source: *Jiaoliu* and others. 1996 figures are extrapolations based on figures for January through June.

One point about Taiwanese investment in China has recently attracted attention. Although the amount of investment has been increasing, the number of projects being invested in shows a downward trend. The reason for this is that investment has increasingly tended to be in larger amounts. Medium-sized and small enterprises based in Taiwan are investing in China regardless of whether the authorities authorize it or not, and they are already reaping the results of those investments, whether positive or negative. In contrast, large enterprises based in Taiwan, which cannot engage in investment without the approval of the authorities, had previously lacked experience in investing in China and are now starting to get involved in that area.

The call for a suppression of investment in China issued by President Li Teng-hui on August 14, 1996 was interpreted as being aimed at large enterprises based in Taiwan⁽¹⁸⁾. Specifically, President Li Teng-hui, announced at a national sports meeting that investment in China by Taiwanese enterprises presently involved approximately 30,000 firms and that the cumulative value of the investment had reached 25 billion dollars. He pointed out that both the number of projects and the size of the investments had reached a scale quite rare in economic history. He also stated that investment in China had already turned into a consistent outflow from the industrial system and that it was putting strong pressure on Taiwan's industrial growth. Furthermore, he criticized the concept of the "Asia-Pacific Operation Center" that was being through at that time as the centerpiece of plans to promote Taiwan's economy, saying that the attitude contained in it of treating China as the hinterland would need to be more carefully studied.

Next, President Li had the following to say about investment in China by Taiwanese enterprises: (1) that the ratio of foreign investment most appropriate for the Taiwanese economy should be determined as an appropriate percentage in relation to the amount of overall investment within Taiwan (for example, 20 to 30 percent of the value of investment in manufacturing within Taiwan), (2) that investment in China by individual enterprises should be determined according to the maximum value of investment within Taiwan by the enterprise in question over the past two or three years (for example, 20 percent of the enterprise's recent effective value of investment within Taiwan), and (3) a

clear statement of his concept for determining an appropriate percentage for investment in China as a share of overseas investment overall, this being from the viewpoint of distribution and as an important point of government policy. This concept was taken to call for expanded investment within Taiwan in order to increase competitiveness and, while proceeding with the liberalization of the economy, the suppression of further advancement into China in order to achieve that goal.

On August 16, Taiwan Plastics, which is said to be the largest corporate group in Taiwan, informed the Ministry of Economics of its intention to withdraw its application to invest in a planned thermal power station for Fujian Province⁽¹⁹⁾. The plan to invest in Fujian Province was to have ultimately involved a total investment of 3.8 billion dollars (approximately 410 billion yen). The plant was to have housed six generators and produced 3.6 million kilowatts of power. The Taiwan Plastics Group had already signed a contract with the government of Fujian Province in May of 1996. The August 19 issue of *United Daily News* reported that construction on the plant had already begun, and that 20 million dollars in capital had already been invested.

On September 12, the President Group, a group of large Taiwanese corporations, made clear its intention to withdraw its plan to construct a power plant in the city of Wuhan⁽²⁰⁾. The plan had called for the investment of approximately 100 million dollars and involved construction of the plant under joint management with the Chinese side. It is said that the President Group now intends to invest inside Taiwan in projects such as large-scale shopping centers.

In response to the suppression of investment on the mainland, China criticized the Taiwanese authorities while making ever more vigorous calls to Taiwanese corporations to invest. On August 29, Chairman Jiang Zemin said, at a meeting in the Great Hall of the People in Beijing with Kao Ch'ing-yüan, President of the President Group and also the leader of an investigation committee on economics and trade from Taiwan, "We must not allow political conflicts to affect bilateral cooperation in economic issues."⁽²¹⁾ He also emphasized that "no matter what the circumstances, we will protect the legitimate interests of Taiwanese businessmen."

If the advance by Taiwan into China continues, the Taiwanese economy will eventually be incorporated into China's economic sphere. If that happens,

China will be able to exert economic pressure on Taiwan, and the negotiations on reunification, which China so earnestly desires, will be likely to go well from the Chinese point of view. All along, the Taiwanese authorities have feared that such situation might come to pass. It would seem that the announcement by President Li was an attempt to take the initiative for the Taiwanese side and exert pressure on China before investment in China became too large.

Nevertheless, the investment climate inside Taiwan has still not been sufficiently prepared. On the other hand, investment in the countries of Southeast Asia, which the authorities have been promoting (in their "southern orientation policy"), involves, with a few exceptions, many countries where there is a large degree of risk. At present, enterprises based in Taiwan are searching for places to invest. It is said that some within the ruling party and the government are suggesting Okinawa as a recommended target for investment.

4. *Confrontation Between China and Taiwan on the International Stage*

Once the military pressure receded, the confrontation between China and Taiwan in international society became more acute. Taiwan tried to expand the scope of its activities on the international stage, strengthen its position as a member of the international community, and increase its economic power. In this way, the Taiwanese authorities hoped that their position in the international community would be more securely guaranteed before they had to face a military threat from China once again. In contrast to this, China has aggressively acted to narrow the scope of Taiwan's activities on the international stage. The military actions in March of 1996 ended in failure when the United States dispatched aircraft carriers. By narrowing the scope of Taiwan's activities in international society, China was hoping to make it unlikely that third countries would militarily intervene.

Taiwan began to work more aggressively to get closer to those countries that maintain diplomatic relations with China. Among these efforts, its attempts to get closer to North Korea have drawn a great deal of attention. There had been whispers about Taiwan's relations with North Korea ever since South Korea broke off relations in 1992.

Between March 15 and 20, 1996, a group of five North Korean officials led by Kim Joung Gil, Secretary of the International Trade Promotion Committee (Assistant Chief of the International Trade Bureau) visited Taiwan. The group was said to have been invited by Yutai Corporation, an enterprise run by the Kuomintang. The group seems to have discussed the possibility of trade cooperation and to have requested aid from Taiwan. On April 29, 1996, North Korea's state-run Korea International Travel Agency established a general representative office in Taipei⁽²²⁾. This office issues visas, and is seen as having the characteristics of a diplomatic mission.

From June 21 through 25, 1996, North Korea's Yi Seung Rok, Deputy Chairman (Vice-Minister) of the External Economic Committee, visited Taiwan. This was the first visit to Taiwan by a high-ranking North Korean official at the vice-ministerial level. The visit took place within the framework of an invitation from the Yutai Corporation trading company, which is run by the Kuomintang. On June 25, the last day of the visit, a spokesman for the Chinese Foreign Ministry expressed China's discomfort as follows: "We are opposed to countries that have diplomatic relations (with China) having formal reciprocal or diplomatic relations with Taiwan."

One of the Taiwanese authorities' current targets for a warming of relations is CIS (Confederation of Independent States, the former Soviet Union). On June 28, the Taiwanese Foreign Ministry stated that an agreement had been reached with Belarus to set up diplomatic missions in each other's countries⁽²³⁾. The name of the Taiwanese diplomatic mission in Minsk, the capital of Belarus was "Taipei Economic and Trade Office in Minsk," and the diplomatic mission from Belarus was called "Minsk Economic and Trade Office in Taipei." These diplomatic missions were to encourage trade and investment, and to promote business, scientific, and cultural relations. Relations with Kazakhstan are also progressing. According to reports from the Central News Agency, China Petroleum Corporation, a publicly managed enterprise in Taiwan, plans to become involved in oil production in Kazakhstan as part of a jointly managed project also involving Israel and local enterprises⁽²⁴⁾. Oil production is scheduled to begin at the end of 1996. The maximum volume of crude oil to be produced is said to be 20,000 to 30,000 barrels (3,180,000 to 4,770,000 liters) per day.

The visit by Vice-President Lian Chan to Ukraine from August 18 through 21, 1996, provided a glimpse of a new method by the Taiwanese authorities to break out of their difficult situation. On August 12, Vice-President Lian Chan left Taipei to travel to the Dominican Republic (with which Taiwan has diplomatic relations) via the United States. On August 16, Vice-President Lian Chan attended the inauguration ceremony in the Dominican Republic for President Fernandes. Then, while in New York on the way back to Taiwan, an incident occurred in which the reporters accompanying him lost sight of Vice-President Lian Chan. It was conjectured that instead of returning to Taiwan, Vice-President Lian Chan was headed for some other country. The talk was that his new destination might be countries in Europe that did not have diplomatic relations with Taiwan.

On August 20, TV Taiwan reported that Vice-President Lian Chan had visited the University of Kiev in Ukraine (with which Taiwan does not have diplomatic relations). It was said that Vice-President Lian Chan received an honorary doctorate from the University of Kiev. After returning to Taiwan, at a press conference on August 22, Vice-President Lian Chan, while emphasizing that the visit was not in his official capacity, indicated that he was "treated with great ceremony" while in Ukraine, that he "met with everyone he wanted to meet with," and that he had held discussions with the President of Ukraine.

On August 21, a spokesman for the Chinese Foreign Ministry announced that Vice-President Lian Chan's visit was not in his private capacity but had "political aims." He also voiced objection to the Ukrainian government, saying that the visit violated the principle of "one China."⁽²⁵⁾ That same day, the Chinese Foreign Ministry summoned the Ukrainian ambassador to China and lodged a protest to the effect that allowing the visit violated the agreement made by the two countries when they established diplomatic relations. In addition, the visit to Ukraine by Minister of State Li Tieying, which had been scheduled for the August 21, was postponed.

After the visit by Vice-President Lian Chan, relations between Taiwan and Ukraine have been the subject of great speculation. In addition to the hypothesis that Vice-President Lian Chan had discussed the possibility of the mutual establishment of offices in each other's countries, there were also rumors that there had been talks on the transfer of nuclear technologies, and even that Ukraine had

allowed Taiwanese pilots to test fly SU27 fighters (which China has purchased from Russia). On the subject of the transfer of nuclear technologies, the former Chairman of the Atomic Energy Council, Executive Yuan stated clearly, "It is not possible to perform research on nuclear weapons in Taiwan. Ukraine nuclear technology is not as advanced as the outside world imagines. However, their experience in dealing with the Chernobyl accident provides a valuable source of reference."⁽²⁶⁾ With regard to the test flight, the Minister of Defense stated on August 23, "I have nothing to announce," thereby refusing to confirm or to deny the rumor⁽²⁷⁾.

In spite of the efforts of the Taiwanese authorities, it is not the case that there is no tendency among the countries that recognize Taiwan to think about establishing diplomatic relations with China. The relationship the Taiwanese authorities are eyeing with most concern right now is the one with the Republic of South Africa. Of the 30 countries (as of November 1996) with diplomatic relations with Taiwan, the Republic of South Africa has the largest population and the most powerful economy. Alfred Nzo, the South African Foreign Minister, visited China between March 24 and 26, 1996. This was the first visit to China by a high official of the South African government. He is said to have told the Chinese that South Africa did not intend to break relations with Taiwan, but hoped to develop its relationship with China. In response, the Chinese side emphasized that if South Africa did not break relations with Taiwan, it would not be possible to normalize diplomatic relations with China. Since then, interest has focused on the maintenance of diplomatic relations between South Africa and Taiwan. On June 30, South African Foreign Minister Nzo began a visit to Taiwan. On the occasion of the end of his visit, Foreign Minister Nzo said on July 2, "We wish to maintain friendly relations with both sides of the Taiwan Strait," before he left for home. On the same day, President Mandela of South Africa stated clearly at a press conference in Johannesburg that South Africa would not break relations with Taiwan in order to establish diplomatic ties with China. On July 4, a spokesman for the Chinese Foreign Ministry announced, with regard to diplomatic relations with South Africa, "If time is needed before diplomatic relations can be established with South Africa, we can wait. However, under no circumstances will we agree to joint recognition."

On August 25, a delegation of representatives led by Executive Yuan Vice-Premier Hsü Li-te visited South Africa. The group of representatives consisted of 40 members, including the directors responsible for trade and agriculture in the Executive Yuan, as well as representatives of private enterprises involved in energy, communications, and investment. The group of representatives promised to make investments in the petrochemical field, in cooperation with South Africa, worth 3.5 billion dollars. They also pledged their cooperation in the automobile parts-manufacturing field, the high-technology field, and in the fields of human resources development and training⁽²⁸⁾. Plans were also announced to build a "Taiwan Industrial Zone" on a 100-hectare site in South Africa. In spite of pledges of economic assistance from Taiwan, doubts about South Africa could not be dispelled. It was reported that President Mandela of South Africa had sent a message of congratulations to Chairman Jiang Zemin on October 1 to mark the anniversary of the founding of PRC.

Although China has not yet scored a diplomatic win in the case of South Africa, there are cases of China's diplomatic offensive already bearing fruit. On August 19, diplomatic relations between China and Niger were restored⁽²⁹⁾. Niger had established diplomatic relations with Taiwan in June of 1992 and broken off relations with China. On the same day, the nineteenth, Taiwan broke off relations with Niger and announced that it was terminating the economic assistance it had been providing to that country. This reduced the number of countries maintaining diplomatic relations with Taiwan to 30.

China has recently been building practical business relationships with countries that have diplomatic relations with Taiwan as part of a policy of gradually narrowing the international environment for Taiwan. This policy is one that has been used by Taiwan in the past. Taiwan has pointed out that the acts of the Chinese side — the "one China" policy that China has always emphasized — actually are self-damaging. But it is ironic that China has learned from Taiwan's practice of "Pragmatic Diplomacy." On September 25, Taiwan's ambassador to Panama signified his approval to the plans of Panama's government to establish commercial representative departments in each other's countries within the year⁽³⁰⁾. These plans call for such commercial representative departments to be established in Panama, Peking, and Hong Kong.

On September 27, the governments of Haiti and China signed an agreement in New York for the establishment of commercial representative departments in each other's countries⁽³¹⁾. The Chinese and Haitian ambassadors to the United Nations, who signed the agreement, are said to have exchanged views on the normalization of relations between the two countries and on the handling of UN business.

It is impossible not to conclude that the international environment surrounding Taiwan has become a difficult one. The General Council of the fifty-first General Assembly of the United Nations, which opened on September 18, 1996, decided not to take up the question of Taiwan's admission into UN⁽³²⁾. Seventeen countries held opinions in favor of the proposition, while 37 countries were opposed. After the list of opinions had been made public, the Secretary General decided, without putting the proposition to a vote, that "the General Assembly will not place this issue on its agenda." On the day after the decision was announced, Ch'eng Chien-jen, Political Vice-Minister of Foreign Affairs, expressed the following optimistic view: "More and more countries are coming to understand the environment our country is in, and our past efforts are gradually bearing fruit."

5. Reaction of Taiwan to the Reversion of Hong Kong — Effects of the Dispute over the Senkaku Islands

Among the rumors about the effects on Taiwan of the reversion to China of Hong Kong, one concerns the official overseas offices (consulate general, consulate, etc.) in Hong Kong of countries that recognize Taiwan. It has been said for some time that, after the reversion of Hong Kong, China would probably not permit countries that recognize Taiwan and also maintain official overseas offices in Hong Kong (as of August 1996, 13 such countries maintained official overseas offices in Hong Kong) to continue to maintain those official overseas offices⁽³³⁾. If permission to maintain official overseas offices in Hong Kong is withdrawn after the territory's reversion, some of the countries that currently recognize Taiwan may wish to keep their offices in Hong Kong while officially breaking their diplo-

matic ties. On the other hand, it is predicted that negative reaction to China for engaging in such a response will increase.

As the reversion of Hong Kong approaches, there has been a variety of speculation on what sort of policy China will adopt in response to those countries that recognize Taiwan and also maintain official overseas offices in Hong Kong. Recent observations by Taiwan have resulted in a prediction that China, rather than responding to countries that recognize Taiwan by using state power, will show more flexibility in an effort to maintain friendly relations with those nations. Specifically, the issue of *United Daily News* dated August 20, 1996, reports that the Chinese Foreign Ministry will not demand that the 13 countries that recognize Taiwan and also maintain official overseas offices in Hong Kong immediately close these offices. Rather, it plans to allow them to continue to operate under a "quasi-official" status. In this case, we can predict that China, while allowing the offices to operate, will nevertheless ask the countries in question to establish diplomatic ties with China and sever formal relations with Taiwan. It cannot be said that the reversion of Hong Kong will have no effect on Taiwan's diplomatic ties.

One source of concern for Taiwan at this time is the question of whether the Taiwanese organizations now based in Hong Kong will be able to continue. At present, the organization in Hong Kong handling Taiwan's practical interests uses the name "Chung Hwa Travel Service." After the reversion, will this organization handling Taiwan's practical interests be allowed to continue to operate? There is also the question of whether this organization handling Taiwan's practical interests will be allowed to continue to use the name it presently employs. The Taiwanese authorities have announced that they plan to keep using the current name⁽³⁴⁾. These plans require the agreement of the Chinese side. The question of whether China will allow the relationship with Taiwan to continue as it is now after the reversion is cause for concern.

In spite of these worries, organizations handling practical business between Taiwan and Hong Kong are pushing ahead as the reversion approaches. On June 13, 1996, an aviation agreement between Taiwan and Hong Kong was signed in Taipei⁽³⁵⁾. Previously, the route between Taiwan and Hong Kong had been exclusively served by Cathay Pacific Airways and China Airlines. The new agree-

ment adds flights by Dragon Air from Hong Kong and Ever Air from Taiwan. The agreement is valid through 2001, so it will continue in effect after the reversion of Hong Kong in 1997. Note that 64% of the stock in Dragon Air is owned by Air China, so in practical terms, the new agreement is one between the state airlines of China and Taiwan. Dragon Air also operates many routes between Hong Kong and various points in China, so the new agreement will allow passengers to fly to many destinations in China via Hong Kong without the need to change planes. On August 1, Dragon Air inaugurated a new route between Hong Kong and Gaoxiong.

The practical business relationships between Taiwan and China, and between Taiwan and Hong Kong, are in the process of a steady transition. On the other hand, the question of the national feelings of the people of Taiwan and Hong Kong continues to remain unclear. The dispute over the Senkaku Islands, which erupted in 1996, provided an opportunity to examine the national feelings of the people of Taiwan and China, and of Taiwan and Hong Kong. The dispute began when Japan ratified the UN Law of the Sea Treaty on June 15. With the ratification of this treaty, Japan established an exclusive economic zone in the seas extending 200 nautical miles from the shores of its territory.

With regard to the exclusive economic sea zones, there is a clause in the treaty which states that, in cases where the 200-nautical-mile extensions overlap each other, there should be negotiations between the countries concerned. However, Taiwan is still not a member of the United Nations. In addition, Japan does not recognize Taiwan as an independent nation, but merely as being in control of Taiwanese territory. The Taiwanese authorities began to fear that the ratification of the UN Law of the Sea Treaty by Japan was a one-sided attempt to hinder the operation of Taiwan's fishing vessels. On July 14, 1996, seven members of a Japanese political society called the "Japan Youth Society" landed on the Senkaku Islands and provoked an incident by establishing a lighthouse⁽³⁶⁾. On July 19, the Association of East Asian Relations, the Taiwanese organization handling practical business in Japan, lodged a protest with Interchange Association Taipei Office, the corresponding practical business organization on the Japanese side⁽³⁷⁾.

The opposition parties strengthened their opposing stance. The New Party, primarily comprising young people from Taiwanese of Chinese descent,

voiced their opposition to the authorities. They also formed a "Diaoyutai (Senkaku Islands) Group" and stressed their view that concrete measures to protect national territory should be immediately taken. In contrast, the Democratic Progressive Party took an inhibitory stance. Hsü Hsin-liang, Chairman of the Democratic Progressive Party, stated that Taiwan should maintain prudence with regard to territorial questions that are the source of international disputes, and that such issues must not be handled on the basis of selfish desires and emotions.

The "lighthouse" that had been erected was subsequently tilted over in early August by typhoons, destroying its usefulness. However, on September 9, the "Japan Youth Society" again landed on the Senkaku Islands and reinstalled it. On the subject of the reinstallation, Chief Cabinet Secretary Kajiyama emphasized that the Japanese government had no policy for participating in the issue, saying, "We have no authority or function to interfere with the acts of private individuals on their own property."⁽³⁸⁾ With regard to the direction in which the issue was developing, he said, "We just hope that this problem does not become more acute. At this time, we are not able to take up this issue and agree or disagree. We are watching to see how things progress," indicating that the government would take a wait-and-see attitude.

Japan was the only country taking a wait-and-see attitude. In Taiwan and in Hong Kong, the issue was becoming more acute, and anti-Japanese feelings were rising. On September 18, the sixty-fifth anniversary of the outbreak of the Manchurian incident, demonstrations were held in Hong Kong, Taiwan, and Macao opposing Japan's control of the Senkaku Islands. In Taiwan, there were demonstrations in Taipei and Gaoxiong. It is said that they became very agitated, with demonstrators pushing their way into the Exchange Society, the Japanese practical business organization in Taiwan, criticizing the Japanese government's response to the issue, burning the Japanese flag, and so on.

Among the people of Taiwan, an atmosphere of dissatisfaction began to develop regarding the authorities' stance of attempting to prevent an expansion of the issue and calling for a peaceful resolution to the question of the fishing industry. Riding on this wave of dissatisfaction, some members of the New Party, which had long opposed Taiwanese independence and advocated reunification with China, saw an opportunity to call for

reunification with China while fanning the flames of anti-Japanese feeling. On the other hand, the Democratic Progressive Party, worrying that the issue of the Senkaku Islands would lead to a movement toward reunification with China, switched to the side of trying to suppress the Senkaku Islands dispute as a foundation for an anti-Japanese movement. The authorities held to the four principles they had announced on September 12 regarding the handling of the issue of the Senkaku Islands. These four principles were (1) to emphasize Taiwan's territorial rights to the islands, (2) to resolve the issue in a peaceful manner, (3) not to cooperate with China, and (4) to give priority to preserving the livelihood of the fishermen⁽³⁹⁾.

After that, following the death by drowning in the sea near the Senkaku Islands of Mr. David Chan Yuk-cheung, an activist on the Senkaku Islands issue, on September 26, and the landing on the Senkaku Islands and planting of Taiwanese and Chinese flags by four activists on October 7, the dispute began to quieten down. The emotions that had been raised in Hong Kong failed to embroil all of Taiwan in anti-Japanese feeling.

Conclusion

In the realm of principle, China-Taiwan relations have been in a state of stalemate since the Presidential election in March of 1996. In the practical realm, the Taiwanese authorities have loosened regulations aimed at China and have worked to improve relations. However, worries remain regarding China's future policies on Taiwan. The question is how China's leadership will fall into place in the years ahead. It has already been some time since we started speaking of the arrival of the post-Deng Xiaoping era. Although it has been some time, it still seems that the Taiwanese authorities are having difficulty in deciding on a policy toward China.

The Taiwanese economy has been in a slump since 1996, and the authorities are implementing restrictions on investment in China. The deciding factor for the imposition of these restrictions will be whether the Taiwanese authorities are able to provide Taiwan's enterprises with markets to take the place of China. Setting up an environment for investment inside Taiwan will no doubt pose difficulties.

On the international stage, the struggle over living space between Taiwan and China continues. The goal is to grab the countries that currently recognize the other side. With regard to the issues surrounding the reversion of Hong Kong as well, the focus is on China's reaction to the countries that recognize Taiwan and that also maintain official overseas offices in Hong Kong. The dispute over the Senkaku Islands, which started in July, resulted in a refusal, overall, to cooperate with China, although there were some in Taiwan in favor of working with Hong Kong and China, and the emergence of a stance favoring Taiwan solving its own problems by itself.

In June 1996, Taiwan's Mainland Affairs Council, Executive Yuan made public the "Hong Kong-Macao Policy Explanation," an outline of a basic law to cover relations with Hong Kong and Macao after they revert to China. Its contents are based on the assumption that the present systems in Hong Kong and Macao will continue after those territories revert to China. With regard to the reversion of Hong Kong, the Taiwanese authorities are hoping that China will maintain the present system in Hong Kong, even though they have doubts about China's promises.

Notes:

* Pin'yin romanization has been applied to those Chinese names whose original spellings could not be ascertained.

- (1) *People's Daily (overseas edition)*, March 25, 1996.
- (2) *Nihon Keizai Shimbun*, May 19, 1996.
- (3) *Asahi Shimbun*, May 22, 1996.
- (4) *China News Agency*, May 24, 1996.
- (5) *Central Daily (international edition)*, April 20, 1996.
- (6) *Central Daily (international edition)*, April 26, 1996.
- (7) *Central Daily (international edition)*, June 3, 1996.
- (8) *United Daily News*, July 30, 1996.
- (9) *Central Daily (international edition)*, July 13, 1996.
- (10) *China News Agency*, August 22, 1996.
- (11) *United Daily News*, March 17, 1996; *Jiaoliu*, April 15, 1996.
- (12) *Central Daily (international edition)*, August 24, 1996.
- (13) *United Daily News*, September 24, 1996.
- (14) *United Daily News*, August 15, 1996.
- (15) *ROC/Taiwan Regional Advancement Statistical Report*, published by the Ministry of Finance, Statistical Printing Office, October 7, 1996.
- (16) *People's Daily (overseas edition)*, September 21, 1996.
- (17) *United Daily News*, August 11, 1996.
- (18) *United Daily News*, August 15, 1996.
- (19) *Nihon Keizai Shimbun*, August 17, 1996.
- (20) *Asahi Shimbun*, September 14, 1996.
- (21) *Nihon Keizai Shimbun*, August 30, 1996.
- (22) *Central Daily (international edition)*, May 1, 1996.
- (23) *United Daily News*, June 29, 1996.
- (24) *Central News Agency*, July 26, 1996.
- (25) *Asahi Shimbun*, August 22, 1996.
- (26) *United Daily News*, September 2, 1996.
- (27) *Central Daily (international edition)*, August 25, 1996.
- (28) *Central Daily (international edition)*, September 4, 1996.
- (29) *People's Daily (overseas edition)*, August 20, 1996.
- (30) *United Daily News*, September 26, 1996.
- (31) *People's Daily*, October 1, 1996.
- (32) *Reuters World Service*, Wednesday September 18, 1996, BC cycle.
- (33) *Sankei Shimbun*, August 18, 1996; *United Daily News*, August 19, 1996.
- (34) *Central Daily (international edition)*, August 26, 1996.
- (35) *Central Daily (international edition)*, June 15, 1996.
- (36) *Mainichi Shimbun*, July 17, 1996.
- (37) *United Daily News*, July 27, 1996.
- (38) *Yomiuri Shimbun*, September 13, 1996, evening edition.
- (39) *Mainichi Shimbun*, September 13, 1996.